

KENTUCKY ECONOMIC INDICATORS

May as of July 25, 2007

KY Composite Index of Leading Indicators increased by 2.6 percent in May

- The Leading Index increased for the second time this year.
- Year-over-year growth increased by 0.1 percent.
- The component indicators leaned positive 3:2.
 - KY Labor Intensity Index decreased 0.8 percent.
 - + KY Index of Initial UI Claims increased by 15.6 percent.
 - + US Retail Sales increased by 19.8 percent.
 - US Manufacturer's New Orders Index decreased 17.8 percent.
 - + Louisville Help Wanted Index increased by 1 point to 30.

Component weights for May are 61.8, 17.2, 12.5, 6.6 and 1.9 respectively.

KY Composite Index of Coincident Indicators decreased by 0.7 percent in May

- The Coincident Index is negative for the second time this year.
- Year-over-year growth is positive for the forty-sixth consecutive month at 1.5 percent.
- All component indicators are negative 0:3.
 - KY Nonagricultural Employment decreased 0.1 percent.
 - US Industrial Production Index decreased 1.5 percent.
 - US Personal Income Less Transfers decreased 0.9 percent.

Component weights for May are 37.8, 26.9 and 22.7 respectively. Component weights do not sum to one because the two US components were discounted to give the Kentucky component more weight.

The Kentucky Leading Index increased by a modest 2.6 percent for May. For the fifth time in twelve months, the Kentucky Leading Index returns to the 109.5. The Leading Index has hovered within half a point of 109.5 since June 2005. Four of the five component indicators reversed sign this month. This is some indication that the Kentucky economy is neither in a state of strong expansion, nor in a state of great decline, but rather somewhere in a mild state of expansion (as the last trio of signs has already indicated an expansion period). The direction of monthly growth has mirrored the US Leading Index pattern for the last six months.

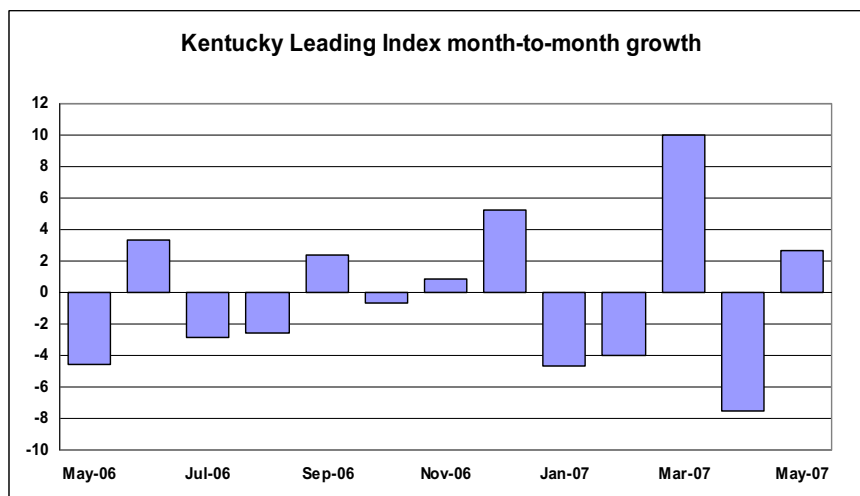
The Kentucky Labor Intensity Index, which has the largest weight in the Kentucky Leading Index, has spent a long time hovering near 104.5 since April of 2004. In early 2006 the index briefly moved up to the 105.0 range. In June 2006, it has slowly moved back towards 104.5 again, to its current position at 104.6. Initial employment numbers are always preliminary for the most recent month. As such, the figures for the previous month get revised to reflect more complete data. In the last year, the previous month's figures have been revised upwards several times, while the current month's figures are slightly lower than the previous month or about the same. The result of this phenomenon is that for the past six months, the growth rate for each current month has been negative or flat.

The impact on the Leading Index itself is even more complicated because it is the growth rate of the current month compared to the previous month which provides information about the future. The revised past values get diluted by other factors, but the current values are altered by the consistent upward revision of the previous month. The components may provide misleading information about the magnitude of the current month's growth rate. For example, the Kentucky Labor Intensity Index may have a negative growth rate for the current month, due to a revision. This will produce a negative impact on the Leading Index in the current month, while the actual movement in the Labor Intensity Index is zero when compared to the value from two months ago or from the unrevised value. This can be misleading and has resulted in more moderate growth rates or larger negative growth rates than otherwise would have occurred without the upward revisions in previous month.

There are five employment sectors that compose the Kentucky Labor Intensity Index and hence all five sectors are revised separately each month. It is a mix of these five employment sectors plus the average weekly hours in each sector that determine the net effect on the Kentucky Labor Intensity Index. There has been no observable bias or pattern in the revisions of the individual employment sectors and therefore GOEA has concluded that no bias exists in the revisions overall. The important issue is that the revisions can affect the current value of the Kentucky Leading Index.

The Kentucky Index of Initial Unemployment Insurance Claims increased by 15.6 percent for May. There has been considerable volatility in the series for the last eight months. The sign of the monthly growth rate has changed in six of the last eight months. The series currently stands at 103.9, nearly one percent above where it was a year ago. The series is composed of two components, Kentucky First Pays and US Initial Claims. The Kentucky component was responsible for a majority of the growth for May. Kentucky First Pays declined by 11.4 percent for May compared to April, while US Initial Claims declined by 6.5 percent. The Kentucky Index of Initial Unemployment Insurance Claims is an inverted index, so declines in the components result in an increase in the index. The index grew consistently throughout 2003 and 2004 and averaged 2.4 percent year over year growth. Since 2005, growth has slowed considerably. Average growth in 2005 was 1.4 percent. In 2006, average growth was 0.1 percent. For January to May of 2007, average year over year growth has increased, to 2.1 percent.

The US Manufacturer's New Orders Index declined by 17.8 percent in May. The series has been following a downward trend since November 2005. US Retail Sales grew sharply in May resulting in a 19.8 percent increase. The Louisville Help Wanted Index rose by one point to 30 in May. The series continues to struggle near its all-time low. Nonagricultural employment fell by 0.1 percent for May. Private services employment gains offset much of the losses in manufacturing employment. Kentucky manufacturing employment falls to within 100 jobs of its all-time low, which was recorded in July 2005. Wood products and motor vehicles were the two manufacturing sectors hit the hardest in May.



Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.

About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products; chemical and allied products; petroleum, coal, rubber and plastic products; fabricated metals and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **U.S. Retail Sales:** During turning points in the Kentucky economy, U.S. Retail Sales was not strictly concave or convex to the origin. For this reason inflexion points were used to test turning points in the U.S. Retail Sales series. U.S. Manufacturing and Trade Sales performed better than U.S. Retail Sales in testing, but because U.S. Manufacturing and Trade Sales was not published in a timely manner it had to be removed from the Kentucky Leading Index.
- **U.S. Manufacturer's New Orders Index:** This index has two components: US Manufacturer's New Orders for Nondefense Capital Goods and US Manufacturer's New Orders for Consumer Goods and Materials. Separately these two series slightly missed one or two turning points in the official reference series. But together they preceded each turning point.
- **Louisville Help-Wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.ky.gov

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**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2006												2007				
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY				
KY Leading Index (1992=100)	109.4	109.7	109.5	109.2	109.5	109.4	109.5	109.9	109.5	109.1	110.0	109.3	109.5				
% Chg Previous Month SAAR	-4.6	3.4	-2.9	-2.5	2.4	-0.6	0.8	5.2	-4.7	-4.0	10.0	-7.5	2.6				
% Chg Same Month Last Year	0.6	0.6	0.3	0.0	0.2	-0.1	-0.4	0.0	-0.5	-0.7	0.1	-0.5	0.1				
KY Leading Index Diffusion Index	56.7	60.0	53.3	56.7	56.7	60.0	70.0	66.7	70.0	66.7	70.0	60.0	60.0				
KY Coincident Index (1992=100)	134.0	134.5	134.5	134.8	134.9	135.2	135.2	135.6	135.5	135.8	136.1	136.1	136.0				
% Chg Previous Month SAAR	-0.5	3.8	0.0	2.6	1.2	3.1	0.1	3.6	-1.7	3.4	2.4	0.2	-0.7				
% Chg Same Month Last Year	2.2	2.2	2.1	3.1	2.7	2.6	2.1	2.0	1.6	1.6	1.5	1.5	1.5				
KY Nonag Employment (000s)	1,845.2	1,845.6	1,838.9	1,846.3	1,845.8	1,844.0	1,846.1	1,850.9	1,854.3	1,854.1	1,861.2	1,856.7	1,856.5				
% Chg Previous Month SAAR	1.6	0.3	-4.3	4.9	-0.3	-1.2	1.4	3.2	2.2	-0.1	4.7	-2.9	-0.1				
% Chg Same Month Last Year	1.2	1.2	0.8	0.8	0.8	0.8	0.6	0.9	0.7	0.6	0.6	0.8	0.6				
KY Private Services Employment (000s)	1,160.6	1,161.0	1,161.9	1,162.1	1,164.2	1,163.9	1,165.0	1,161.9	1,170.8	1,171.4	1,175.3	1,170.8	1,172.5				
% Chg Previous Month SAAR	1.8	0.5	0.9	0.2	2.2	-0.2	1.1	-3.1	9.6	0.6	4.1	-4.5	1.7				
% Chg Same Month Last Year	1.7	1.6	1.5	1.4	1.4	1.2	1.2	0.8	1.4	1.3	1.0	1.0	1.0				
KY Mfg Employment (000s)	261.7	262.1	257.6	261.1	261.3	259.4	260.6	262.1	260.9	259.7	258.1	260.1	256.9				
% Chg Previous Month SAAR	-3.2	1.8	-18.8	17.6	0.9	-8.4	5.7	7.1	-5.4	-5.4	-7.1	9.7	-13.8				
% Chg Same Month Last Year	-0.4	-0.2	0.3	-0.3	-0.3	-1.1	-1.0	0.1	-0.9	-1.3	-1.9	-0.9	-1.8				
KY Unemployment Rate (%)	5.7	5.7	5.7	5.7	5.7	5.7	5.6	5.4	5.6	5.7	5.4	5.3	5.5				
KY Index of Initial UI Claims	103.0	103.8	103.5	102.3	102.9	103.1	102.7	103.5	103.9	102.2	103.6	102.7	103.9				
% Chg Previous Month SAAR	-13.1	9.2	-2.9	-13.2	6.8	2.3	-4.9	9.8	4.7	-17.6	17.9	-10.0	15.6				
% Chg Same Month Last Year	0.2	0.6	0.3	-0.8	2.2	0.3	-1.0	-0.3	-1.1	-2.0	-0.4	-1.5	0.9				
KY Labor Intensity Index (1992=100)	104.9	105.1	104.7	104.9	104.8	104.8	104.8	104.8	104.9	104.7	104.7	104.6	104.6				
% Chg Previous Month SAAR	-0.5	2.3	-4.0	1.7	-0.7	-0.1	0.5	-0.3	0.8	-1.6	0.0	-1.1	-0.8				
% Chg Same Month Last Year	0.3	0.5	0.3	0.3	0.2	0.2	0.2	-0.1	-0.1	-0.3	-0.4	-0.3	-0.3				
Louisville HWI (1992=100)	35.0	37.0	34.0	32.0	35.0	36.0	38.0	42.0	35.0	31.0	43.0	29.0	30.0				
% Chg Previous Month SAAR	-79.9	94.8	-63.7	-51.7	193.1	40.2	91.3	232.3	-88.8	-76.7	4,973.2	-99.1	50.2				
% Chg Same Month Last Year	-10.3	-9.8	-17.1	-30.4	-37.5	-33.3	-26.9	-19.2	-20.5	-26.2	7.5	-27.5	-14.3				
GF Total Tax Receipts (\$ mill)	705.2	808.7	578.7	553.1	834.7	630.1	630.7	881.4	682.8	544.3	652.7	671.9	784.7				
% Chg Same Month Last Year	34.2	9.5	0.8	-0.4	7.2	-0.4	-0.1	5.4	0.2	7.1	9.1	-11.2	11.3				
GF Sales & Use Receipts (\$ mill)	235.4	230.8	249.3	230.4	224.0	242.5	223.8	238.9	286.2	193.6	212.5	202.4	270.9				
% Chg Same Month Last Year	8.9	5.1	4.6	6.0	-2.4	2.9	2.4	4.4	-1.0	1.3	3.9	-12.2	15.1				
GF Income Tax Receipts (\$ mill)	213.1	259.5	228.6	227.4	281.8	248.4	242.6	269.2	202.1	227.1	204.0	283.4	337.8				
% Chg Same Month Last Year	-1.0	-2.6	-4.0	-9.3	1.4	-4.2	3.7	5.9	-8.5	14.1	19.0	-16.7	58.6				

SELECTED U.S. ECONOMIC INDICATORS SEASONALLY ADJUSTED

	2006												2007				
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY				
US Leading Index (1996=100)	137.6	137.8	137.5	137.0	137.6	137.6	137.6	138.4	137.9	137.1	137.9	137.6	137.9	137.9	137.6	137.9	137.9
% Chg Previous Month SAAR	-5.1	1.8	-2.6	-4.3	5.4	0.0	0.0	7.2	-4.3	-6.7	7.2	-2.6	7.2	2.6	-2.6	2.6	2.6
% Chg Same Month Last Year	1.6	0.9	0.7	0.2	1.4	0.7	-0.2	0.1	-0.5	-0.6	-0.4	-0.4	-0.4	0.2	-0.4	0.2	0.2
US Coincident Index (1996=100)	121.8	122.0	122.2	122.5	122.6	123.0	123.0	123.4	123.3	123.5	123.7	123.9	123.7	124.0	123.9	124.0	124.0
% Chg Previous Month SAAR	1.0	2.0	2.0	3.0	1.0	4.0	0.0	4.0	-1.0	2.0	2.0	2.0	2.0	1.0	2.0	1.0	1.0
% Chg Same Month Last Year	2.4	2.3	2.2	3.2	2.8	2.8	2.2	2.2	1.8	1.8	1.7	1.8	1.7	1.8	1.8	1.8	1.8
US Non-Farm Employment (Mil.)	135.9	136.0	136.3	136.4	136.6	136.7	136.9	137.2	137.3	137.4	137.6	137.7	137.6	137.9	137.7	137.9	137.9
% Chg Previous Month SAAR	0.9	1.1	2.0	1.7	1.8	1.0	1.7	2.0	1.4	0.8	1.5	1.1	1.5	1.7	1.1	1.7	1.7
% Chg Same Month Last Year	1.9	1.8	1.7	1.7	1.8	1.8	1.7	1.7	1.6	1.5	1.4	1.4	1.4	1.5	1.4	1.5	1.5
US Service-Providing Employment (Mil.)	113.3	113.4	113.6	113.8	114.0	114.2	114.4	114.6	114.8	115.0	115.1	115.3	115.1	115.5	115.3	115.5	115.5
% Chg Previous Month SAAR	1.2	1.1	2.3	1.9	2.2	1.7	2.6	2.4	1.3	1.9	1.5	1.7	1.5	2.1	1.7	2.1	2.1
% Chg Same Month Last Year	1.9	1.8	1.7	1.7	1.8	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.9	1.8	1.9	1.9
US Manufacturing Employment (000s)	14,215.0	14,238.0	14,229.0	14,218.0	14,206.0	14,186.0	14,143.0	14,131.0	14,130.0	14,113.0	14,090.0	14,072.0	14,072.0	14,065.0	14,072.0	14,065.0	14,065.0
% Chg Previous Month SAAR	-1.0	2.0	-0.8	-0.9	-1.0	-3.3	-1.9	-1.0	-0.1	-1.4	-1.9	-1.5	-1.9	-0.6	-1.5	-0.6	-0.6
% Chg Same Month Last Year	-0.2	0.1	0.1	0.1	0.2	-0.2	-0.4	-0.5	-0.6	-0.7	-0.9	-1.1	-0.9	-1.1	-1.1	-1.1	-1.1
US Unemployment Rate (%)	4.6	4.6	4.8	4.7	4.6	4.4	4.5	4.5	4.6	4.5	4.4	4.5	4.4	4.5	4.5	4.5	4.5
US Manufacturer's New Orders Index (1996=100)	132.2	132.4	131.1	129.4	132.2	129.0	129.0	132.3	125.7	126.2	129.6	130.4	129.6	128.3	130.4	128.3	128.3
% Chg Previous Month SAAR	-2.1	2.6	-11.2	-14.6	28.6	-25.1	0.1	34.7	-45.9	5.1	37.1	8.3	37.1	-17.8	8.3	-17.8	-17.8
% Chg Same Month Last Year	-0.2	-1.0	1.0	-3.0	0.6	-2.6	-6.0	-3.0	-5.3	-4.7	-4.1	-1.5	-4.1	-2.9	-1.5	-2.9	-2.9
US Initial Claims for UI (000s)	331.4	309.7	312.7	316.3	315.3	314.1	327.4	320.0	310.3	338.2	316.3	328.9	316.3	307.6	328.9	307.6	307.6
% Chg Previous Month SAAR	107.0	-55.6	12.3	14.7	-3.7	-4.5	64.5	-24.0	-30.9	181.0	-55.2	59.8	-55.2	-55.2	59.8	-55.2	-55.2
% Chg Same Month Last Year	1.3	-4.4	-2.2	-0.1	-20.2	-8.2	3.8	1.9	6.9	10.9	3.0	5.5	3.0	-7.2	5.5	-7.2	-7.2
US Industrial Production Index	110.9	111.9	112.3	112.5	112.2	112.0	111.5	112.2	111.7	112.5	112.4	112.9	112.4	112.8	112.9	112.8	112.8
% Chg Previous Month SAAR	-0.8	11.2	4.9	2.3	-3.7	-1.8	-4.9	7.8	-5.7	9.5	-1.1	5.1	-1.1	-1.5	5.1	-1.5	-1.5
% Chg Same Month Last Year	4.0	4.3	4.7	4.6	6.0	4.6	3.0	2.8	2.4	2.9	2.2	1.8	2.2	1.7	1.8	1.7	1.7
US Personal Income Less Trans. (Bil. 2000 chained)	8,028.1	8,051.6	8,062.3	8,067.0	8,135.0	8,254.5	8,284.6	8,294.3	8,266.1	8,294.3	8,322.1	8,321.7	8,321.7	8,315.4	8,321.7	8,315.4	8,315.4
% Chg Previous Month SAAR	-4.0	3.6	1.6	0.7	10.6	19.1	4.5	1.4	-4.0	4.2	4.1	-0.1	4.1	-0.9	-0.1	-0.9	-0.9
% Chg Same Month Last Year	3.1	2.8	2.3	6.9	3.7	4.9	4.5	4.0	2.9	2.7	2.9	3.3	2.9	3.6	3.3	3.6	3.6
CPI, All Urban (1982-84=100)	201.9	202.4	203.2	203.8	202.7	201.8	201.9	202.8	203.2	203.9	205.1	206.0	205.1	207.4	206.0	207.4	207.4
% Chg Previous Month SAAR	6.8	3.0	4.8	3.6	-6.3	-5.2	0.6	5.5	2.1	4.5	7.5	5.1	7.5	8.4	5.1	8.4	8.4
% Chg Same Month Last Year	4.1	4.3	4.2	3.9	2.1	1.3	2.0	2.5	2.1	2.4	2.8	2.6	2.8	2.7	2.6	2.7	2.7
US Retail Sales (\$Billions)	359.4	360.4	364.0	364.2	362.0	362.0	363.2	367.3	367.2	369.3	372.9	371.7	372.9	377.3	371.7	377.3	377.3
% Chg Previous Month SAAR	-6.5	3.4	12.7	0.9	-7.2	0.0	4.2	14.4	-0.4	6.9	12.2	-3.8	12.2	19.8	-3.8	19.8	19.8
% Chg Same Month Last Year	6.9	5.3	4.6	6.3	5.4	4.9	4.5	5.6	2.2	3.6	4.4	2.8	4.4	5.0	2.8	5.0	5.0
US Consumer Expectations (1966=100)	68.2	72.0	72.5	68.0	78.2	84.8	83.2	81.2	87.6	81.5	76.7	75.9	76.7	77.6	75.9	77.6	77.6
% Chg Previous Month AR	-58.6	91.7	8.7	-53.6	435.0	164.4	-20.4	-25.3	148.5	-57.9	-34.3	-35.3	-34.3	30.4	-35.3	30.4	30.4
% Chg Same Month Last Year	-9.4	-15.3	-15.2	-11.6	23.5	34.2	19.5	1.2	11.0	9.4	3.6	3.4	3.6	13.8	3.4	13.8	13.8
Ave. Prime Interest Rate (% NSA)	7.93	8.02	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25